



CITY OF DURHAM | NORTH CAROLINA

DATE: February 18, 2016

TO: Thomas J. Bonfield, City Manager

THROUGH: Wanda S. Page, Deputy City Manager

FROM: Bertha T. Johnson, Director of Budget and Management Services
David Boyd, Finance Director

RE: **FY 2015-16 Second Quarter Financial Report**

Executive Summary

The administration is pleased to submit the Second Quarter Financial Report for FY 2015-16. This report is based on six months of financial information. The City Council receives each quarterly report at a regularly scheduled work session. The report will also be published on the City's website at: <http://durhamnc.gov/Archive.aspx?AMID=39>.

Attached Exhibits

A number of charts and tables are attached to this document to provide the City Council with additional information on the City's financial status in key areas. Below is an overview of the attachments and highlights of activity.

Exhibits 1 & 1A: General and Debt Services Funds Budget-to-Actual Summary and Year End Projections by Department: This provides a summary of budget and actual general fund revenues and expenditures for all departments through the second quarter of FY2016. It is currently projected that all departments will end the year within budget. The full year estimate indicates that departments will spend \$1.6M less than budgeted, primarily driven by savings in personnel costs. The administration will continue to monitor revenue collections and expenditures and, if necessary, make targeted reductions as required to meet revenue projections.

Property Taxes: Collections are at \$67,402,244 compared to \$71,603,378 for the same period in FY2015 (negative variance of \$4,201,134 or 5.9%) due to an accounting change that distributed \$11,047,625 of property taxes directly to the Solid Waste Fund this year. Taxes were previously being transferred from the General Fund; now taxes are being deposited directly to the Solid Waste Fund. It is projected that property taxes will come in just slightly below budget (\$494K). The FY2016 budget projected a 99.0% collection rate based on the collections at the 3rd Quarter FY2015. The final collection at June 30, 2015 was 99.6%. The 2015 tax bills have been mailed. Property tax payments were to be paid in full by January 5th, 2016.

Sales Taxes: Collections were \$15.1M, or 17% higher than the same period last year mostly due to a change in how Piped Natural Gas and Electric Utility Franchise tax revenues are captured. Refunds processed by the state tend to vary, but current projections expect the year to end with a positive variance for the year of about \$2.6M.

Other Revenues: Utility franchise taxes have been partially replaced with utility sales taxes (for Piped Natural Gas and Electric) and are down significantly by \$3,380,490 (-76.8%) to \$1,022,797 compared with \$4,403,287 for the same period last fiscal year because they are now captured under

sales tax. Licenses are down by \$2,811,636 (100%) from the same period last fiscal year. The reduction in license revenues is due to the elimination of Privilege License revenue. Permits are down \$2,337,526 (-86.1%), to \$377,883 compared with \$2,715,409 for the same period last fiscal year due to Inspection Fees being move to a new Special Revenue Fund this year. Occupancy tax collections are up \$196,111 (19.3%) to \$1,212,418 compared with \$1,016,307 for the same period last fiscal year. Powell Bill revenues are up slightly by \$19,840 (0.3%), to \$6,173,473 compared with \$6,153,633 for the same period last fiscal year. Charges for services are down by \$152,786 (-4.5%) to \$3,225,180 compared with \$3,377,966 for the same period last fiscal year. Investment income has been moved to the Capital Improvement Plan (CIP) as a revenue source for projects.

The following chart shows a comparison of major revenues for Quarter 2 in 2015 and 2016. As shown, total major revenues year-to-date for FY2016 are \$94,604,276 compared to \$105,095,359 for FY2015, a negative difference of \$10,491,083 (-10.0%).

Major Revenues

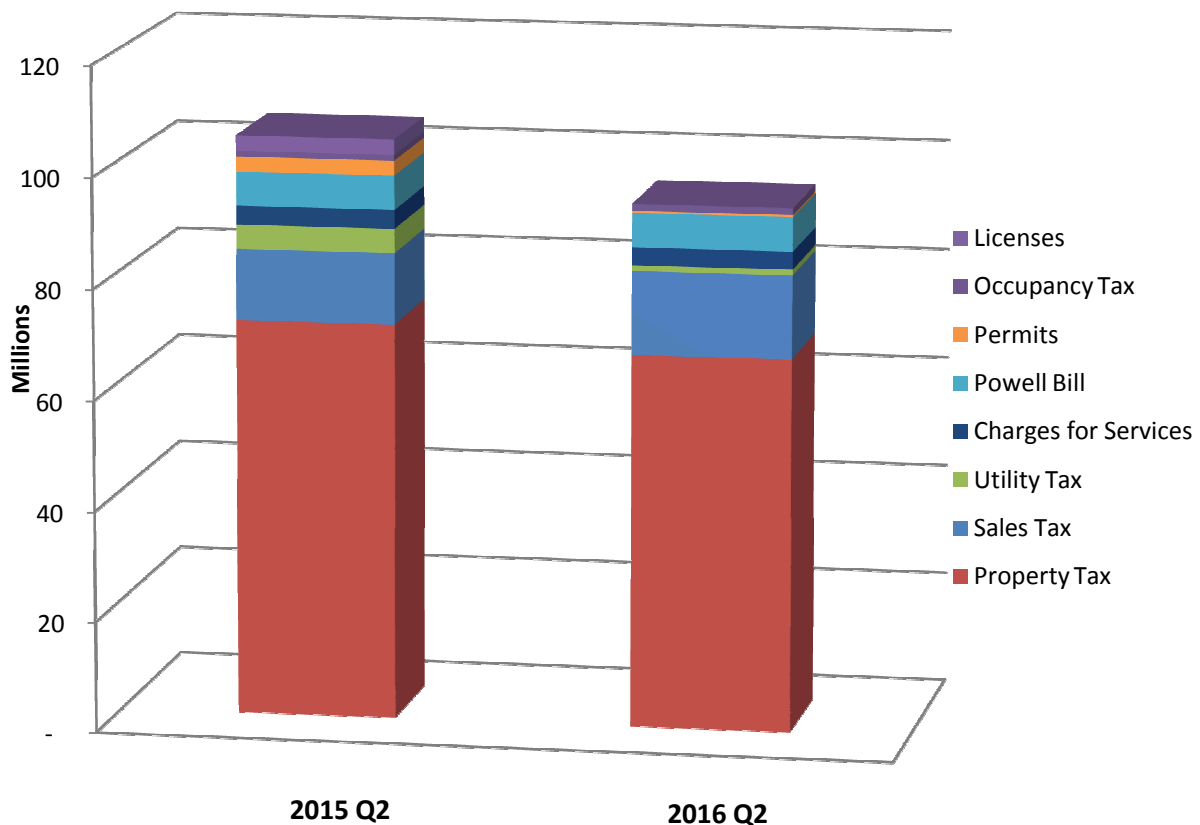


Exhibit 2: Enterprise Fund Budget-to-Actual

This provides a summary of budgeted and actual revenues and expenditures in each enterprise fund. The results for each major fund are summarized below.

Water & Sewer Operating Fund

For the second quarter of FY2016, results show that operating revenues were 55% of the budgeted operating revenue while operating expenses were 41% of the budgeted operating expenses. This is essentially identical to the ratios last year. Of note is that billed consumption for the six months

ending December 31, 2015 was 4% higher for water and 25% higher for irrigation-only customers than the same time during the prior year likely due to the extended hot, dry weather conditions through October. In addition, the number of customers billed increased nearly 2.8%. This resulted in a revenue increase of \$2.6M over the prior year.

During the previous five years, average consumption for the first and second quarter is typically 54% of the annual total, primarily due to irrigation and cooling tower usage. At this time revenue is anticipated to be slightly at or over budget at year end. However, if the current wet weather pattern continues usage may be less than anticipated. The total revenues for the quarter exceed the total expenses by \$1.5M; however, the second quarter surplus will be offset by the end of the year by additional debt service payments and indirect costs charges. Any remaining surplus will be transferred to capital projects.

Operating expenditures are slightly less than anticipated at 41.3% of the total FY2016 budget, but are expected to be close to budget by June due to equipment and services anticipated to be delivered later in the year. Personal services are up slightly from FY 2015 due to fewer vacancies. Operating expenditures are comparable to this same quarter in FY 2015. Total expenditures are 52% of budget due to a major interdepartmental transfer occurring in this quarter; year-end projections are expected to be slightly under budget.

The Water and Sewer Fund is a self-sufficient enterprise fund deriving all revenues from charges to customers and receives no tax support. All excess funds of revenues over operating and debt expenditures are dedicated to capital projects. The fund has consistently finished each fiscal year in a strong positive financial position.

The rate increases over the past eight years have stabilized the water and sewer fund and therefore ensured compliance with revenue bond covenants. Rate increases in each of the past four years have been less than initially projected due to favorable developments with the Capital Improvement Program (CIP). The general economic condition slowing the construction industry resulted in bids for infrastructure projects coming in significantly lower than budgeted, and the staff has carefully reallocated funding for capital projects to defer where appropriate to responsibly minimize expenditures.

As evidenced by the FY2016-2021 Capital Improvement Program (CIP) budget, both water and wastewater capital needs are substantial with over \$56 million approved in the current year CIP. The anticipated funding from future revenue bonds requires the ability to maintain a healthy current revenue stream for the long term. The Department budgeted a \$19.6M transfer to the CIP in FY2015-2016 and will continue its efforts to maximize revenues and ensure rate-payers' dollars are expended efficiently and effectively.

Water and Sewer Capital Facility Fee Fund

Capital Facility Fees are derived from charges to new development or facility expansion that result in a greater demand on the City's water supply, water treatment capacity, and wastewater treatment capacity. These fees are transferred to the Water and Sewer Construction Fund and are used to support capital improvements.

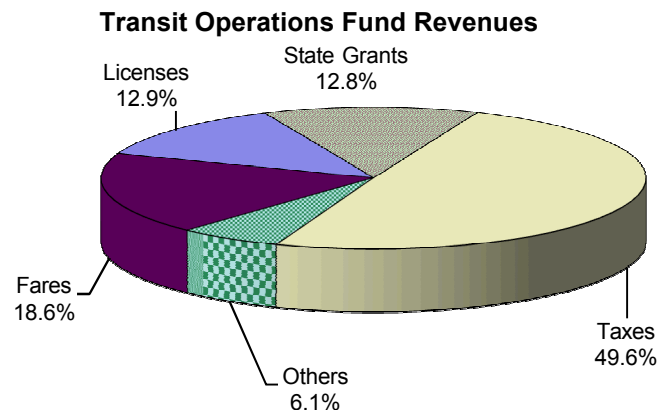
Capital Facility Fees do not count as current revenues in the computation of revenue bond covenant debt service coverage. Any increase in these fees will help provide for future capital needs, but not reduce any need for consumption and service charge fee increases related to revenue bond debt covenants.

Second quarter revenues are 49% of budget and about 3% less than revenues in the same prior year period. The previous four years have shown a very positive trend in local development and

growing utility customer base. Expenditures consist solely of transfers to the Water and Sewer Construction Fund, and as such, are currently on pace to meet or exceed the \$4.6M projected in the budget.

Transit Operations Fund

Second quarter results project year-end revenues and expenses to both be below budget. Overall, the fund is expected to finish the year near balanced. Ridership numbers will continue to be monitored, but are essentially slightly down (3%) year to date compared to the previous fiscal year. Those revenues are lower than anticipated, but savings in fuel mostly offset those revenue shortfalls.



The Transit Operations Fund receives a significant amount of support from property taxes (about 3.87 cents per \$100 on the tax rate). These account for 46.3% of budgeted fund revenues in the FY2015-16 adopted budget. State grants are another large funding source for the Transit Operations Fund. With fee increases last approved in FY2004, charges to system riders return about 15% of the cost of operations. The Transit Operations Fund is not inclusive of federal transit grants, about \$8.3M estimated for FY2015-16, which are also used to support the DATA transit system personnel and maintenance costs.

Solid Waste Disposal Fund

The Solid Waste Fund is projected to receive slightly less revenue than originally budgeted for FY2016. This is due to lower revenues from recycling as commodity prices have fallen, but is partially offset by a small increase in Mixed Solid Waste revenues.

The fund is projected to end under budget for expenditures which is primarily attributable to operational savings in contractual services, and savings on fuel. Overall, the fund is projected to end the year with a small surplus.

The Solid Waste Disposal Fund was budgeted to receive 30.7% of revenue through charges and other non-tax revenues. The remaining revenue is provided by allocating 5.85 cents of the tax rate to the Fund.

Stormwater Management Fund

The Stormwater Management Fund provides for the management and maintenance of operational expenses of stormwater activities which include street cleaning. A transfer is also made from the operating fund to Stormwater Capital Improvement Program project funds for private property and watershed planning and design projects. The Stormwater fund is a self-sufficient enterprise fund and receives no tax support.

At the end of the first quarter, the Stormwater Fund has received 68.55% of projected operating revenues. The fund anticipates transferring \$1,145,251 to fund balance at year end due to strong revenue performance and savings operational costs.

Parking Facilities Fund

At the end of the second quarter, the Parking Facilities Fund is projected to come in better than budget for the fiscal year. Monthly and hourly parking revenues are exceeding expectations, while minor overages in operating expenses are projected. Overall, the fund is expected to transfer about \$357,000 more to fund balance than budgeted.

Ballpark Fund

The Ballpark Fund currently relies on the Debt Service Fund for 85% of the budgeted funding. In January 2014, all operations became the responsibility of the Durham Bulls under the new agreement. The City remains responsible for any capital expenses in excess of \$200,000. This year approximately \$43K will be paid for expenses that exceeded the capital/repair expense cap in 2015. The remaining items include debt service payments, the collection of interest and the revenue sharing established in the most recent agreement. All items are projected to meet target.

DPAC Fund

This fund was established for the Durham Performing Arts Center. Beginning with the current fiscal year the former DPAC maintenance and repair fund were combined into the DPAC Fund. Current fund expenditures and revenues are anticipated to end the year at budget.

Exhibit 3: Special Revenue & Grant Funds

This provides a summary of spending in each of our major grant funded programs.

Exhibit 4: Investments

This provides a summary of the allocation of our investment portfolio as well as the investment earnings so far during the current fiscal year.

Exhibit 5: Risk

This provides a report of claims payments made to liability claimants in accordance with Council Resolution #8810.

Exhibit 6: Contracts

This provides a summary of the number and type of contracts that were authorized so far during the year.

Exhibit 7: Impact Fees

This table shows the amount of impact fee funds available by zone for streets, open space and parks. Project obligation by current ordinance is also shown. Revenues shown are actual revenues year-to-date.

Exhibit 8: Planned Debt Issuance

This report summarizes any actual debt issuance so far for the current fiscal year.

Exhibit 9: Donations Report

This report lists amounts donated to the City of Durham from various sources.

Exhibit 10: CIP Spotlight Report

This report summarizes the progress of all Council approved capital projects.